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NATIONAL INTELLIGENCE DAILY CABLE

Saturday October 23, 1976 CI NIDC 76-249C



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**NATIONAL SECURITY INFORMATION**  
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The NID Cable is for the purpose of informing senior US officials.

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CHINA: Situation Report

25X1 [ ] Peking radio's casual acknowledgement on Thursday that Hua Kuo-feng had been elevated to chairman of the party central committee and of the military affairs commission, and that the leftist quartet on the Politburo had been "struck down," still falls short of a formal announcement that the party central committee has confirmed Hua in his new posts. Thursday's broadcast moved closer to a full account of the charges against the leftists, but a detailed description of the machinations of the four has yet to be made public and official.

25X1 [ ] Nor has a new Politburo, to replace that elected at the last party congress three years ago and now depleted by death and purges, been revealed. The elevation of Li Hsien-nien to the post of premier--generally assumed in Peking to be imminent--has not been announced, but Hua is now being identified as chairman rather than premier.

25X1 [ ] Many of these formal announcements may be made this morning during a television broadcast from Peking which is to be transmitted abroad. In any event, the new Chinese leadership appears anxious to underline the legality of its actions--in contrast to the moves earlier this year against Teng Hsiao-ping, which many Chinese considered "illegal". Formal endorsement of the new shape of political affairs requires action by the central committee and other national bodies. A central committee plenum may still be in session; large numbers of officials who were flown to Peking shortly after the arrest of the leftist quartet still appear to be in the capital.

25X1 [ ] If no formal announcement is made today or during a broadcast scheduled for transmission abroad next Monday, and both broadcasts merely recapitulate the large-scale demonstrations which have taken place in most Chinese cities this past week it would suggest that problems may have arisen in sorting out a new leadership and formalizing a new set of programs. There is as yet, however, no indication that this is the case. The events of the past two weeks have clearly been welcomed widely throughout China and the current leadership appears to be acting with great confidence.

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[ ] If problems exist, they do not involve Hua's enhanced position or the arrest of the leftists. Even without the final, formal announcements, these actions seem irrevocable. Hua, moreover, appears to have the firm backing of the bulk of the military establishment--a fact which has been underlined both in the demonstrations of recent days and in Chinese propaganda since the arrests.

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[ ] A detailed but informal and unofficial account of the events surrounding the arrests obtained by the US liaison office, in fact, portrays Defense Minister Yeh Chien-ying--a close associate of Chou En-lai and an outspoken critic of the fallen leftists--as the prime mover in the showdown and the man who convinced Hua to act. This account states that Hua decided to move after an attempt was made on his life on the morning of October 6 by an unnamed individual instigated by the leftist quartet. Hua is reported to have had the support of eight of the eleven powerful military region commanders.

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[ ] If this account is correct, however, it suggests that two and perhaps three military region commanders either remained passive or supported the left. One was probably Li Te-sheng, commander of the Shenyang Military Region (Manchuria). The four provinces with which Li has been most closely associated were the provinces which have been most vociferous in promoting the campaign against Teng Hsiao-ping since last February.

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[ ] In any event, Li is almost certainly not the only military figure with leftist sympathies. Nearly all accounts of the turbulent month following Mao's death claim that the leftist quartet was counting on military support of some sort. Although their hopes were obviously largely misplaced, a number of relatively senior officers in the provinces supported "radical" Red Guard groups during the Cultural Revolution, and at least some of these individuals have not been weeded out of active service in the intervening years.

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[ ] How to handle these men could be a delicate problem for the dominant leadership group in general and for the PLA leadership in particular. Neither Yeh Chien-ying, Su Yu, a leading member of the military affairs commission, nor any of the regional military commanders has appeared since the leftists were arrested, and it is possible that the PLA high command is now grappling with this and other immediate problems. One could be the appointment of a new chief of staff and a new head of the general political department; both jobs are currently unfilled.

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[ ] Other possible problem areas are the exact composition of a reconstituted Politburo and the question of whether or not to close out the campaign against Teng Hsiao-ping quickly. The US liaison office account of the arrest of the leftists states that a preliminary investigation of the charges against Teng has revealed that many of the charges against him were trumped up by the discredited "black gang" and that the riot in Tienanmen square last April was instigated by Wang Hung-wen, one of the leftist quartet. Hua Kuo-feng and some of those close to him may, however, prefer not to move too quickly in "reversing the verdict" on Teng, whose shoes Hua has in effect filled.

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[ ] There may also be some concern over how fast to move against individuals in Peking and the provinces who have long espoused leftist positions. The account obtained by the US liaison office claims that some 500 people were arrested in the provinces on the night of October 6-7, but a handful of left-leaning province chiefs and other prominent officials are apparently still at large. No extensive arrests have apparently yet been made in the propaganda apparatus, long a leftist stronghold.

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[ ] The elimination of the leftist leaders has obviously left a major vacuum in Shanghai, China's largest city, where three of the four members of the "black gang" held the top posts in the municipal party committee. The commander of the Shanghai garrison, long an opponent of the leftists, is reported to have immediately disarmed the local urban militia, a leftist organization.

25X1 [ ] Wallposters and diplomatic accounts state that the Peking authorities have subsequently dispatched the party boss of neighboring Kiangsu Province and two alternate members of the Politburo, Su Chen-hua and Ni Chih-fu, to supervise the political reorganization of the city.

25X1 [ ] Still another Politburo member, Wang Tung-hsing, initially rumored to have fallen with the leftist quartet, appears not to be in political trouble. Wang had been suspected by many Chinese, as well as foreign observers, of leftist sympathies, but at the crucial moment he seems to have cast his lot with Hua Kuo-feng. Security forces in Peking, which are under his control, were warmly lauded during last Thursday's demonstration in the capital. [ ]

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#### RHODESIA: Attitudes on Government Side

25X1 [ ] //Most of Rhodesia's whites, including members of the Rhodesian security forces, appear to be solidly behind Prime Minister Smith's policy of seeking an accommodation with the black nationalists.//

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25X1 [ ] //Smith reportedly is reassuring the whites that the civil service is the key to carrying out any government's policies and that Rhodesia's civil service is likely to remain in the hands of white's well into the future. Smith is saying that since the blacks are not known to have any programs for assuming control of the civil service, they could therefore be limited to the top ministry posts while middle- and lower-level white civil servants remain in actual charge.//

25X1 [ ] //Despite Smith's optimism, a black majority government is likely to move quickly to secure control over all aspects of the bureaucracy. Moreover, there are more educated blacks in Rhodesia capable of assuming bureaucratic responsibilities than has been the case with other former British colonies at independence.//

LEBANON: Situation Report

25X1 [ ] Relative calm prevailed throughout Lebanon on the second day of the cease-fire yesterday.

25X1 [ ] There was some military action in southern Lebanon near the Israeli border, where Christian forces supported by Israeli artillery fire have been moving on Palestinian positions for the last several days. Although fighting there apparently tapered off yesterday, there was some shelling of Bint Jubayl and other villages in the vicinity.





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[ ] Palestinian and leftist forces, charging that the Israelis conducted the artillery attacks on Bint Jubayl, have vowed to continue resisting Israeli and Christian incursions in the area. The joint Palestinian-leftist command met Thursday night to discuss the Riyadh summit resolutions and issued a statement declaring that it will not adhere to the cease-fire where Israeli forces are involved.

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[ ] The leftist command under Kamal Jumblatt reinforced the threat with a unilateral declaration last night of its intention to launch a "large scale armed struggle against the Israeli incursions" if the Arab summit conference scheduled to convene on Monday does not handle the issue.

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[ ] Arab League security forces concentrated their attention yesterday on reestablishing checkpoints to supervise the cease-fire along the line dividing east and west Beirut. Five checkpoints were established yesterday, and a security force spokesman discussed with Lebanese and Palestinian leaders arrangements for additional checkpoints and a buffer zone as interim measures before the arrival of the expanded 30,000-man force to be constituted at the Arab summit meeting.

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[ ] At the summit, Arab League secretary general Riyad will ask all Arab states to indicate whether and in what numbers they wish to contribute to the expanded force. The final selection of additional contingents will then be left to Lebanese President Sarkis, who is to have overall control of the peacekeeping troops.

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[ ] Saudi Arabia is expected to augment its contingent, and other troop contributions are anticipated from Sudan, Tunisia, Morocco, and possibly Kuwait.

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[ ] Despite general adherence to the cease-fire thus far, all sides are cautious, and there remains considerable skepticism that the truce will hold.

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#### IRAQ: Reaction to Riyadh Accord

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[ ] Iraq's statement on Thursday denouncing the agreement reached in Riyadh this week by Egypt, Syria, Saudi Arabia, Kuwait, Lebanon, and the Palestine Liberation Organization reflects the Iraqis' sense of betrayal by Egypt. Until recently, Cairo had been collaborating with Iraq's effort to strengthen Palestinian and Lebanese leftist forces arrayed against the Syrians.

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[ ] Iraqi strongman Saddam Husayn probably believed that President Sadat shared his objective of complicating Syria's involvement in Lebanon in the hope of encouraging moves within Syria to topple President Asad. Saddam probably now sees Sadat's willingness to go along with the Riyadh agreement as a reversal by Egypt, one that opens the way for Syria to extricate itself from the problems brought on by its role in Lebanon.

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[ ] //Despite their opposition to the agreement, the Iraqis may begin to reduce their own involvement in Lebanon if they believe that Lebanese leftists and the Palestinians intend to observe the truce. Forces controlled by Baghdad in Lebanon are not strong enough to provoke a renewal of full-scale fighting, although they could spark incidents.

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[ ] Having apparently parted ways with Egypt on policy toward Lebanon, Iraq may now be seeking a common approach with Libya. The Libyans have announced they will not attend the Arab summit conference scheduled to open in Cairo on October 25 and are probably urging Baghdad to boycott the conference, too.

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[ ] The Iraqi strongman is probably concerned that internal rivals may try to exploit Iraq's lack of political return for its investment of money and prestige in Lebanon. Not only does Syrian President Asad, the archrival of the Iraqi Baathists, seem to have weathered domestic criticism of Syria's intervention in Lebanon, but the Riyadh agreement is also an implicit legitimization of Damascus' role by conservative and moderate Arabs.

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[ ] PLO chairman Yasir Arafat, during his visit to Baghdad this week, probably pressed the Iraqis to attend the summit in spite of their misgivings. Arafat will need all the help he can line up to support Palestinian views on peacekeeping arrangements and the safeguarding of Palestinian interests in Lebanon. Syria and most of the other Arab states would certainly veto any Iraqi offer to participate in peacekeeping forces in Lebanon.

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MALAYSIA: Oil Negotiations

[ ] Malaysia's national oil company, Petronas, may reach a production-sharing agreement with the major oil companies before the end of the year. Prime Minister Hussein told Shell and Exxon executives in July that their companies must conclude a contract by mid-November or face nationalization.

[ ] The major issue separating the two sides concerns provisions for the rate of return and investment recovery in a new agreement. Petronas' proposals were based on similar company-government agreements elsewhere in the world, but the companies believe these overlook the high risk and difficulty of extracting Malaysian offshore oil.

[ ] //In late September, the controversial and highly nationalistic Petronas chief, Tengku Razaleigh resigned to devote full time to his Finance Ministry portfolio. He was replaced by the former secretary of the government, Tan Sri Kadir, who is more sympathetic to Hussein's desire to accommodate foreign investors and to conclude an agreement with the oil companies.//

25X1 [ ] Malaysia is seriously concerned that failure to reach a satisfactory agreement could scare off foreign investment in non-oil sectors. The ambitious development plan for 1976 to 1980 calls for continued high dependence on foreign investment in the private sector. [ ]

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USSR: Nuclear Power Program

25X1 [ ] //The Soviet nuclear power program continues to fall behind schedule despite the emphasis it has received in successive economic development plans. The USSR is looking to the West for technology and equipment to solve the problem.//

25X1 [ ] //Even if the Soviets acquire the Western technology and equipment they want, it will not help them meet the goals of the tenth Five-Year Plan, ending in 1980. Failure to meet current goals could possibly cause some localized electric power shortages in the European part of the USSR.//

25X1 [ ] //The USSR now has a nuclear-electric generating capacity of 6,146 megawatts. The tenth Five-Year Plan calls for tripling the capacity by 1980. [ ]

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25X1 [ ] The Soviet nuclear power program is rather small in comparison to the US program, which had an installed capacity of more than 38,000 megawatts by the end of 1975.//

25X1 [ ] //The Soviet nuclear program has never achieved the established goals of previous Five-Year Plans. There have been numerous delays caused by poor construction and management techniques, late delivery of important components, and inadequate technology.//

25X1 [ ] //The main problem has been the inability of the Soviet machine building industry to build nuclear reactor components in needed quantities. [ ]

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25X1 [REDACTED]

25X1 [REDACTED]

Acquisition of Western nuclear component manufacturing equipment and technology thus would not help meet goals of the tenth Five-Year Plan. It would, however, put the Soviets on a solid industrial footing to meet the goals for nuclear power plant construction in the eleventh and twelfth Five-Year Plans.//

25X1 [REDACTED] //In the meantime, the USSR has been attempting to purchase foreign reactor components or even complete nuclear power stations to make some progress toward meeting the goals of the nuclear power program. [REDACTED]

25X1 [REDACTED] The foreign purchase of major components for a 1,000-megawatt nuclear power plant would cost about \$300-\$400 million per plant.//

25X1 [REDACTED] //Purchases of Western reactors and components would not help attain the goals of the tenth Five-Year Plan because of relatively long construction times. Such purchases, however, would significantly reduce the strain on the Soviet nuclear reactor component industry during its expansion period.//

25X1 [REDACTED] //The Soviets evidently are willing to spend a considerable amount of foreign exchange to increase their nuclear power capacity. Their shopping list is large and the program has high-level backing. It will require a great deal of time, however, for the Soviets to build up their machine building industry to the levels required by current plans. [REDACTED]

ITALY: Lira

25X1 [ ] The Italian government last night imposed a tax on purchases of foreign currency for the second time this month in order to strengthen the lira.

25X1 [ ] The government decision to impose a 7-percent tax on foreign currency purchases comes one week after the expiration of a similar tax of 10 percent. The previous tax essentially dried up the Italian exchange markets and left the central bank the only lira seller in the market. When the previous tax was lifted on Monday, the lira plunged from 844 to 870 to the dollar. So far this week it has been kept at this level by heavy intervention by the Bank of Italy and a program of exchange controls.

25X1 [ ] In contrast to the earlier surcharge, which served only as a temporary expedient to shore up the lira, the latest tax would reportedly remain in effect up to four months and should have the same impact on import costs as a currency devaluation.

25X1 [ ] In response to the Italian government's action, the Monetary Committee of the EC Commission held an emergency meeting and later issued a statement critical of the Italian move. It urged Rome to take immediate austerity measures to stabilize the Italian economy and to restore confidence in the lira. The Committee intends to meet again early next week to discuss the matter more fully. [ ]

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PORTUGAL: Political Tensions

25X1 [ ] //Political tensions are rising in Portugal, fueled by rumors of government changes, squabbling within the military, and divisions in the governing Socialist Party. A key figure in many of the rumors is President Eanes, who apparently has begun to consider taking a greater role in the government.//

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[REDACTED]

25X1

[REDACTED] //Eanes seems to be worried about the current situation on many counts:

--He has made no secret of his disillusionment with the minority government of Prime Minister Soares. He believes Soares is not doing enough to tackle Portugal's serious economic problems and has not responded sufficiently to his behind-the-scenes prodding.

--He reportedly fears an attempt on his life may be made by leftists, who would try to pin the blame on the right.

--He may be concerned that rightists in the military are bidding effectively for greater influence.

--He may also fear that recent protests by conscript officers over pay and promotions are weakening the armed forces.//

[REDACTED]

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[REDACTED] //Eanes has apparently not yet settled on a course of action, however. He clearly does not want to be more closely identified with the Soares government, [REDACTED]

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25X1

[REDACTED]

25X1

25X1 [ ] //If Eanes decides to intervene in the political process soon, he probably will try another civilian government before resorting to military rule. He has spoken favorably of a coalition government with majority support in the legislature, and he may eventually try to force the Socialists to ally with one or both of the parties to their right.//

25X1 [ ] Soares still needs the support of the left, however, especially in the labor movement, and the Marxist faction is too small either to challenge his leadership or to have any future as a splinter party. He may use the Socialist congress to chastise the left and perhaps even remove its leaders from cabinet posts, but he will probably hesitate to force it out of the government altogether. [ ]

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#### UNITED KINGDOM: Labor Contest

25X1 [ ] //Left-wing British Labor Party leader Michael Foot, with the support of many moderate Laborites, won a comfortable victory this week over Education Secretary Shirley Williams in the race for the party's deputy leadership.//

25X1 [ ] //The contest had threatened to aggravate left-right tensions within the party, but the passive campaign of both candidates helped avoid divisive bickering. Prime Minister Callaghan did his part to minimize damage to party unity by remaining officially neutral. Callaghan clearly favored Foot even though he is more ideologically attuned to Williams. Foot has been a loyal cabinet minister and a key figure in maintaining harmony between the government and its union supporters.//

25X1 [ ] //Williams, however, has not lost out completely. Her substantial vote in Thursday's party election gives her the strongest claim to inherit Roy Jenkins' role as titular head of Labor's right wing. Jenkins will soon resign from Parliament and in January become president of the EC Commission. [ ]

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